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ABSTRACT

This report presents a course of action that California and its higher education campuses could pursue in response to economic conditions that have undercut the quality and equality of the system. California's higher education system is described as being in a state of emergency due to unique features: the staggering increase in its college-age population in the next decade, recent budgetary and enrollment history, state budgetary prospects, and leadership response. Three policy approaches are presented, along with assessments of the social costs and benefits and the political feasibility of each. These include: (1) continuation of incremental decision-making and resource allocation, unguided by any long-run strategic plan; (2) phased-in privatization, with resulting budgetary savings earmarked as financial aid for low-income students; and (3) declaration of a state of emergency and appointment of a blue ribbon commission which will work to open as many spaces as possible for California undergraduates while maintaining necessary strength and capacity for research and graduate/professional education. Twelve actions are offered to increase undergraduate educational opportunities for California residents, such as the following: exclude all out-of-state undergraduates from public colleges; suspend new admissions to master's degree programs in arts and science; and allow California students to use state aid out of state. (Contains 14 references.) (JDD)

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A STATE OF EMERGENCY?

Higher Education in California

A Report From

THE CALIFORNIA
HIGHER EDUCATION
POLICY CENTER

February 1995

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A STATE OF EMERGENCY?

Higher Education in California

by David W. Breneman
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A Report Prepared for
The California Higher Education Policy Center

February 1995

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Foreword

Nearly two years ago, the California Higher Education Policy Center talked with Harvard economist David Breneman about conducting an independent examination of the issues facing higher education in California. Breneman, formerly a college president and senior fellow in the Economic Studies Program of The Brookings Institution, has written extensively about public and private higher education. He received his Ph.D. in economics from UC Berkeley in 1970. His findings, conclusions and recommendations about California higher education and the policy agenda are likely to spark an intense and long overdue policy debate.

After spending considerable time interviewing state and campus leaders, reviewing data on the California economy and higher education, and participating in several meetings, Breneman has concluded that the Governor should declare California higher education in a "state of emergency." Because state and institutional leaders and governing board members have been slow to recognize this emergency makes it no less real, he points out. In addition to the "state of emergency," Breneman identifies two other possible policy options for the state: maintaining the status quo, which would involve incremental and ad hoc decision-making characteristic of the past four years; or instituting radical reform, which would involve making a conscious effort to privatize the system of higher education over the next ten years. Breneman plays out each of these scenarios, describing the consequences of the various choices and selecting the "state of emergency" as the best policy option for maintaining access to high-quality higher education for Californians.

Breneman argues that a "state of emergency" is necessary not just because the next 10 to 15 years will witness a huge increase in demand for higher education at the same time that resources remain limited, but also because there is no plan or planning process in place statewide to address this problem. While the actions proposed during the state of emergency will invoke debate and criticism, the more fundamental question raised eloquently in this report is whether or not California leaders will preserve and pass on the legacy of higher education to the next generation. If we fail to do so, Breneman writes, "we will have failed the young in the most fundamental way imaginable . . . and will be held accountable for our failure in the diminished lives of those who follow."

Over the coming months the Center will encourage debate and discussion of the recommendations by David Breneman. Those who object to the ideas outlined under Breneman's "state of emergency" are challenged to put forth their own ideas about how California can preserve excellence in higher education and educational opportunity for qualified Californians.

Two complimentary reports—commissioned by the Center to study how higher education is financed—underscore the need for fundamental policy debate about the future of higher education in California. In the first, William Pickens, senior partner of MGT Consultants, develops a detailed description of the history of higher education funding from the adoption of the 1960 Master Plan to the present. His report sets

forth his major findings and conclusions. The second report—by Lawrence Gladieux, executive director, and Jacqueline King, research associate of the Washington, D.C., office of the College Board—is a comprehensive report on federal, state and institutional student financial aid programs in California, and the changes that have occurred from 1990 to 1994.

These three independently prepared reports are important contributions to our understanding of the policy issues confronting California higher education. Whether readers agree or disagree with the methodologies and perspectives of the authors, they will find their work informative and stimulating.

Over the past two years the Center has benefited from the sound advice of many individuals on its finance agenda. The Center thanks the following people for their contributions: Brenda Albright, Douglas Barker, Sandra Baum, Frank Bowen, David Breneman, Paul Brinkman, Ann Daley, Harold Geiogoue, Lawrence Gladieux, Robert Harris, Arthur Hauptman, Donald Heller, Jacqueline King, Kirk Knutsen, Martin Kramer, Arthur Marmaduke, William Pickens, Virginia Smith, Robert Wallhaus, and William Zumeta.

*Joni Finney
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Introduction

In 1970, I received my Ph.D. in economics from the University of California, Berkeley, as part of the Ford Foundation Research Program in University Administration, a multi-year project designed to improve the management of research universities. In the intervening 25 years, while not employed in California, I have maintained contact with the state and have followed the educational and financial fortunes of California colleges and universities, public and private. My continuing interest was largely professional, for the California system of higher education has a significance that extends far beyond the state's borders. For example, the Organization for Economic Cooperation and Development (OECD) in Paris has cited the California system as a model for other countries to study in moving toward mass higher education (OECD 1990; Rothblatt 1992). And the key to understanding the combination of quality and equality that has typified higher education in California is the much-lauded 1960 Master Plan.

It is with considerable sadness, then, that I and other observers have watched that great system topple from its pedestal, as hard economic times have undercut both the quality and equality of the system. To cite but two examples: the early retirement of nearly 2,000 full professors from the UC system, brought about by financial duress, has

surely reduced the research and teaching capabilities of the nation's erstwhile premier public university system; and the cuthack of enrollments in the state by roughly 187,000 students,¹ caused by fee increases and campus decisions to downsize in the face of budget cuts, has ended guaranteed access to higher education for all who are motivated and qualified to attend. It has been painful to watch the demise of this part of the California dream.

For these reasons, I accepted with enthusiasm an invitation to work with the California Higher Education Policy Center on financial issues and policy responses to the deteriorating situation in California. During the past two years, I have visited the state on numerous occasions to interview leaders in Sacramento and on campuses, to collect data, and to meet with others at the Policy Center to discuss ideas and options. The present report reflects my best judgment on a course of action that the state and campuses could pursue to minimize further damage, and to respond to a prolonged period—of uncertain duration—during which resources are likely to remain in short supply. While other states and regions of the country face similar difficulties (Breneman 1993), unique features of the California situation call for an exceptional response, *a recognition that California higher education is in a state of emergency*. In what follows, I will explain and justify my use of that extreme description. Because prior reports of the Policy Center have done an excellent job of spelling out the issues that confront higher education in California, they need only be summarized briefly here.

While other states and regions of the country face similar difficulties, unique features of the California situation call for an exceptional response, a recognition that California higher education is in a state of emergency.

¹ Between 1991/92 and 1993/94, UC head-count enrollments declined by 4,658, CSU declined by 34,319, and the community colleges declined by 148,277. The community colleges did not report as large a decline in FTE (full-time-equivalent) enrollment, the difference being that most of the head-count decline was among part-time students. Table One reports enrollment on an FTE basis for all three public systems.

Summary of the Issues

Tidal Wave II

First and foremost, unlike most states, California faces a staggering increase in the traditional college-age population in the next decade—a projected increase of 450,000 students by 2006, an increase of nearly 50 percent from today's level (Callan & Finney 1993). Clark Kerr has referred to this forthcoming upsurge in enrollments as Tidal Wave II, comparable in absolute growth of numbers to Tidal Wave I, the baby-boom years from 1965 to 1975 (Kerr 1994, p. 3). Prior to the economic recession, educational leaders were planning to handle this growth by building new campuses; for example, there was talk of adding three new University of California campuses. Such talk has long since ceased, however, as economic realities have set in. With the exception of the new California State University campus at Monterey, made possible by the defense conversion of Fort Ord, new campuses will not be part of the solution to increased demand in the coming decade. Based on my interviews, the result seems to have been a collapse of thought about the future, as if the dimensions of the problem have simply overwhelmed policy makers. Tidal Wave II looms as the proverbial elephant in the corner of the room, ignored by all.

I have puzzled about why this fundamental issue seems to have elicited so little public discussion, and can only speculate about the reasons. California has a 35-year commitment to access to higher education, and this value is so deeply ingrained within the state that open discussion of it seems impossible, particularly if that discussion were to suggest that the

commitment could no longer be met. To an outside observer, it might seem reasonable to put that issue on the table, but within the state, no one wants to touch it. Instead, it seems far more palatable simply to let access erode without drawing attention to that fact. In addition, I am convinced that no one has an answer to the question of how to maintain access in a world of diminished public resources, and thus silence reigns. The fact that a growing percentage of the college-age population is made up of young people from racial and ethnic minorities increases the political and social sensitivity of the issue.

Based on my interviews, the result seems to have been a collapse of thought about the future, as if the dimensions of the problem have simply overwhelmed policy makers. Tidal Wave II looms as the proverbial elephant in the corner of the room, ignored by all.

Perhaps a declining confidence in the ability of government leaders to solve social problems adds to the pessimism. College and university leaders may recognize that realistic solutions will require an end to "business as usual," and may be reluctant to explore options that will be painful and disruptive on campus. And yet, the growing numbers of young people wanting and needing higher education are (and will be) there, and it is foolish to think that denial is an effective long-run strategy. The ideas advanced later in this paper may ultimately be easier for an outsider to propose than for those enmeshed in the system.

Recent Budgetary and Enrollment History

Table One summarizes basic trend data on state financial support of the three public systems since 1989, as well as enrollment trends in the public and private sectors in California. Also included are figures on state appropriations for the California Student Aid Commission, which supplies financial aid to students in both public and private sectors, as well as information on student fee increases. In current dollars, direct state appropriations to the UC and CSU systems are down 13.7 and 8.8

percent respectively since 1989, and have increased by 8.3 percent in the community college system. The state appropriations are down 25.5, 21.3, and 6.7 percent, respectively, in dollars of constant purchasing power. In response, the systems raised student fees by 124.8, 89.5, and 290 percent respectively, while appropriations to the Student Aid Commission only increased from \$141.9 million to \$194.8 million, a gain of only 37.3 percent. To an unknown degree, these sharply higher fees—without offsetting increases in need-based financial aid—contributed to the drop in enrollments noted in the table.

TABLE ONE
Trends in State Support and Enrollments

	1989/90	1990/91	1991/92	1992/93	1993/94	% Change 1989-1994	% Change in Constant Dollars† 1989-1994
University of California							
State Approp. (1000s)	\$2,076,662	\$2,135,733	\$2,105,560	\$1,878,531	\$1,793,108	-13.7%	-25.5%
FTE Students*	152,863	155,881	156,371	154,277	152,301	-0.4%	
Approp. per FTE Student	\$13,585	\$13,701	\$13,465	\$12,176	\$11,773	-13.3%	-25.3%
Tuition & Fees	\$1,634	\$1,820	\$2,486	\$3,044	\$3,674	124.9%	93.9%
California State University							
State Approp. (1000s)	\$1,631,540	\$1,653,399	\$1,634,366	\$1,490,055	\$1,488,465	-8.8%	-21.3%
FTE Students*	272,608	278,502	270,729	258,359	247,494	-9.2%	
Approp. per FTE Student	\$5,985	\$5,937	\$6,037	\$5,767	\$6,014	0.5%	-13.4%
Tuition & Fees	\$839	\$920	\$1,080	\$1,456	\$1,590	89.5%	63.4%
California Community Colleges							
State & Local Approp. (1000s)	\$2,276,527	\$2,525,891	\$2,531,200	\$2,529,743	\$2,464,484	8.3%	-6.7%
FTE Students*	806,976	841,073	851,993	855,409	838,916	4.0%	
Approp. per FTE Student	\$2,821	\$3,003	\$2,971	\$2,957	\$2,937	4.1%	-10.2%
Tuition & Fees	\$100	\$100	\$120	\$210	\$390	290.0%	236.3%
California Student Aid Comm.							
Total Cal Grant Funding (1000s)	\$141.885	\$150.857	\$163.359	\$138.118	\$194.783	37.3%	18.4%
Number of Cal Grants	76,125	78,299	73,219	75,060	75,397	-1.0%	
Average Grant Award	\$1,864	\$1,927	\$2,231	\$1,840	\$2,583	38.6%	19.5%
California Independent Colleges and Universities							
FTE Students	139,894	137,619	141,619	147,431	149,458	6.8%	

* Enrollments are reported on a full-time-equivalent-student basis, rather than as head-count enrollments. Community college ADA enrollment figures were converted to FTES.

† This column is adjusted for inflation by using the Consumer Price Index (CPI).

Sources: Data for UC, CSU, CCC, and CSAC are from California Postsecondary Education Commission, "Fiscal Profiles 1994." Data for the independent colleges and universities are from the Association of Independent California Colleges and Universities.

A case can be made for increased student fees in public institutions that enroll large numbers of students from high-income families, provided the higher fees are accompanied by increased need-based aid directed to students from low-income families. This policy (known as "high tuition/ high aid") calls for the state to redirect some of the savings achieved from reduced institutional appropriations into student financial aid, in this case, through the California State Scholarship Commission. As the data in Table One indicate, this policy has not been followed in California in the 1990s. Instead, the state has followed a "high tuition/low aid" policy, which is precisely what critics of this approach fear will generally happen.

The patterns displayed in Table One are consistent with short-run decision making under financial duress, not guided by an overarching policy. Such has been the case in California in the 1990s, an approach described by the Policy Center as a "policy vacuum" (Callan 1993). While "muddling through" might suffice for a few years with limited damage to student access and institutional quality, it is a recipe for disaster if continued, given the demographic tidal wave about to wash over the state. The time has clearly come for a longer view, before what remains of the promise imbedded in the Master Plan is lost.

State Budgetary Prospects

Table Two presents General Fund revenue and expenditure projections through 1997 provided by the California Commission on State Finance.

While much of the nation has emerged from the recession of the early and mid-1990s, such is not yet the case in California. Reduced defense spending, military base closures, and reduced aero-space outlays following the end of the Cold War have taken a particularly hard toll on the Golden State, and a new engine of economic growth has yet to reveal itself. Consequently, the finance commission has projected a General Fund deficit of \$4.5 billion for the state through 1997, with continued pressure on state budgets for all public activities, including higher education.

Far more sobering, however, are the findings of a technical report conducted for the Policy Center, which demonstrated that the California economy would have to grow at a compound rate of seven percent per year between 1991 and 2006 in order to finance the anticipated enrollment growth, assuming 1991's pattern of educational support (Callan & Finney 1993, p. 4). Such a growth rate, while not impossible, is highly unlikely, and cannot be assumed. Alternatively, higher education could receive a growing share of the state General Fund to meet the cost of enrollment growth. The technical report estimated that higher education's share would have to grow from 12.4 percent in 1993 to 20 percent in 2006 to meet the educational need, given more realistic projections of economic growth (Callan & Finney 1993, p. 4). The many other demands on the state General Fund, including the sharply increased costs of the new "Three Strikes" criminal legislation, renders this alternative moot (California Higher Education Policy Center 1994).

A more recent, and independent, examination of California's fiscal prospects, conducted

TABLE TWO
Forecasts of General Fund Revenues and Expenditures
(All amounts in billions)

	1994/95	1995/96	1996/97
General Fund Revenue Forecast	\$ 41.1	\$ 43.1	\$ 44.9
General Fund Expenditure Forecast	\$ 42.5	\$ 45.5	\$ 49.4
Forecasted Surplus/Deficit	\$ -1.4	\$ -2.4	\$ -4.5

Source: California Commission on State Finance, "California Budget Outlook," Dec. 1993.

by the Rand Corporation, confirms the grim assessment of the Center's technical report (Carroll et al. 1994). The Rand researchers note that California's General Fund in fiscal year 1995 was spent largely on four activities: K-12 education (35 percent), health and welfare (34 percent), higher education (13 percent), and corrections (9 percent). Based on recent trends and given state and federal spending mandates, they project the shares to shift by fiscal year 2002 as follows: K-12 education (47 percent), health and welfare (35 percent), corrections (14 percent), and higher education and everything else (4 percent). (See Figures 1 and 2.) The researchers conclude:

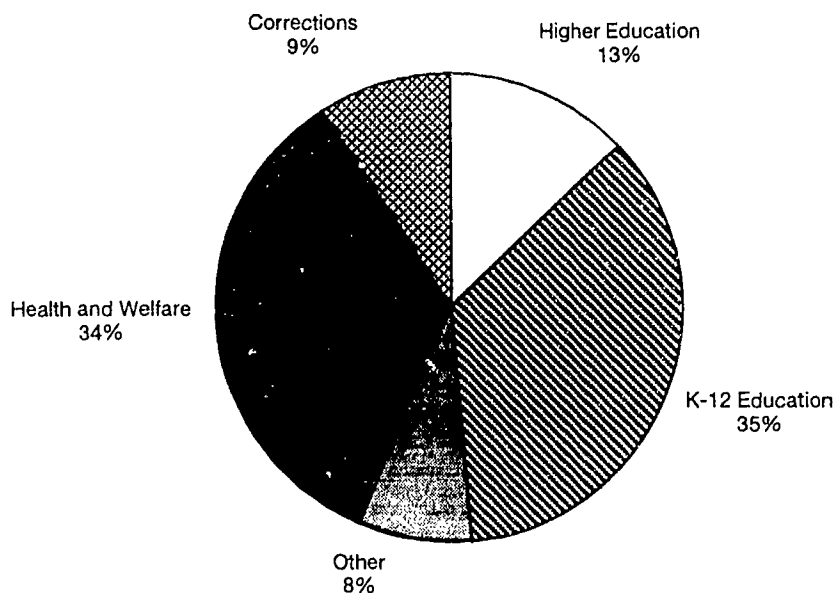
Clearly, the Golden State faces a budget crisis—not a transitory problem that likely economic growth or the usual policy changes can address, but a fundamental and long-term change in the options we can choose from. A small set

of essentially fixed demands will soon consume virtually all of the state's unrestricted income. Only a few basic options seem to present themselves, and none appears attractive (Carroll et al. 1994, p. 15).

To give some idea of what these changes might mean for prospective college students, the Rand researchers considered a more optimistic scenario in which higher education's share of the General Fund would decline to six percent of the General Fund by 2002. In that case, assuming that the cost per student remains unchanged, they estimate that the CSU system would have to turn away 200,000 to 300,000 students. In commenting on what these projections mean for the state, one of the authors, Roger Benjamin, noted:

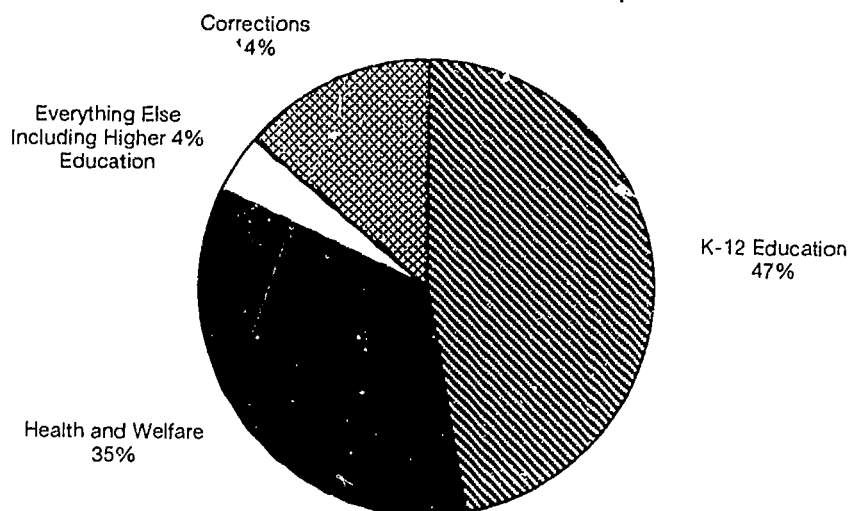
I think we are seeing a calamity unfold in the case of higher education. Califor-

FIGURE ONE
Distribution of California General Fund Appropriations
Fiscal Year 1995



Source: Rand Research Review, v. xviii, no. 2, Fall 1994.

FIGURE TWO
Prediction for Fiscal Year 2002 Budget Distribution



Source: *Rand Research Review*, v. xviii, no. 2, Fall 1994.

nia's system was a model for the nation; in many ways the state's prosperity was built on the world-class reputations of its colleges and universities. But funding for higher education has been shrinking for almost a decade and the squeeze is going to get much worse. A college education will revert to being a benefit enjoyed only by a privileged few. The paradox is that never have these institutions been more critical to the state's social and economic well-being. Without access to higher education, how are the vast majority of our young people going to gain the skills they need in today's high-tech workplace? Conversely, how can California flourish without a well-educated, highly trained workforce? (Carroll et al. 1994, p. 13).

The most one can say about economic projections is that they are subject to considerable uncertainty, and thus the course of wisdom lies in not fixing a policy based on any single estimate of funds likely to be available in

future years. The sensitivity analyses of the technical report and the Rand research demonstrate convincingly, however, that higher education in California is not going to be able to meet its obligations to the next generation of students through increased state support. The economic situation of the state in 1995 is radically different from that of 1960, when the Master Plan was adopted to serve Tidal Wave I. The combination of Tidal Wave II and the grim budget outlook explain my earlier assertion that California higher education is in a state of emergency, whether publicly acknowledged or not.

Leadership Response Thus Far

Although it would be easy from the vantage point of '995 to criticize the actions (or lack thereof) of state and university leaders over the past five years, there is no point in such a negative exercise. Given human fallibility, several years' experience may have been necessary before the enduring nature of

the financial crisis facing California higher education could truly sink in. College and university leaders reacted to the events of the last five years defensively and protectively, seeking to preserve educational quality and minimize damage to the institutions. Had the financial crisis proved to be short-term, similar to those experienced periodically since the 1950s, that would have been a sensible response (Pickens 1995). Similarly, one can understand why political leaders, faced with multiple problems caused by the severe recess-

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sion—together with other physical and social upheavals—would have failed to develop long-term educational policies aligned to the new fiscal reality. *But there can be no excuse for the continuation of such behavior.* The realities sketched in the preceding pages are now obvious to all in responsible positions.

The citizens of California have inherited a fabulous resource in its system of higher education, as well as a legacy of providing educational opportunity for all who seek it. To squander those assets and that legacy through a failure to face facts and to develop new and imaginative policies would rightly subject political and educational leaders to contempt.

As a contribution to this essential discussion, in what follows I will sketch three policy approaches that might be adopted, and assess the social costs and benefits, and the political feasibility of each approach. For purposes of clarity, I will refer to these options as: 1) status quo; 2) radical reform; and 3) state of emergency of indefinite duration. I will discuss each in turn, and make it clear why I prefer the third. Mine is only one voice in what must be a far broader conversation, but that conversation must begin. It must be undertaken in full recognition of the crisis confronting higher education in California, and lead directly to vigorous new policies and actions at both state and institutional levels.

Policy Options

Status Quo

Social organizations as complex and as decentralized as the higher education system in California, with its three public segments and 73 accredited independent colleges and universities, come close to defying rational analysis. No person or agency is in control of the system in any meaningful sense, and simple inertia tends to keep each college and university doing what it did yesterday, or the year before. The environment in which the system functions, however, is undergoing dramatic change, and is likely to continue changing in ways that are only partly predictable. In such an unstable operating environment, it is not obvious what "status quo" means, even though this should be the simplest option to describe. Thus, our first task is to be clear about what this option might mean for California higher education.

What most strikes an observer of the recent California experience is the absence of any clearly defined strategic perspective guiding decisions at either the state or system levels. There is widespread, if rarely voiced, awareness that the social contract known as the Master Plan is breaking down, and that it no longer guides policy-making or resource allocation, but nothing has been put in its place. The Governor's office seems content to set a budget figure for each system without specifying enrollment levels or desired outputs, leaving the system offices and campuses to set their own agendas. The Legislature moved timidly in its last session to require CSU to enroll 2,500 additional students in 1994 and 1995, but has otherwise been silent on the pol-

icy issues. Student fees (which clearly function as tuition, although the charade continues of not admitting that fact) are set annually with increases as large as possible, and surcharges for graduate and professional programs are developed on an *ad hoc* basis to augment campus revenue. A percentage of annual fee increases is set aside by campuses for increased need-based financial aid, but much of that aid is directed to graduate students, amid disagreement about what was intended. Several CSU campuses close admissions early in the recruiting year, only to scramble in the summer to fill empty seats. With due allowance for human frailty and trying times, one searches in vain for any strate-

What most strikes an observer of the recent California experience is the absence of any clearly defined strategic perspective guiding decisions at either the state or system levels.

gic vision operating here. Indeed, the most accurate way to characterize the "status quo" option is simply the continuation of incremental decision-making and resource allocation, unguided by any long-run strategic plan. Reaction and counter-reaction is the game, and pity the poor student or parent who seeks to make sense of it and plan for higher education.

One might argue that the absence of a strategy is itself a kind of strategy. In that the players keep their options open at all times, responding as needed to each unpleasant surprise or shock to the system. In the short-run,

when the operating environment is changing rapidly and long-run forces are not clear, this non-strategy may even be the best approach. Arguably, that description fits the California experience of recent years. But when the clouds lift, and broad patterns become obvious—as they have—then a more strategic course of action is surely to be preferred. The challenges facing higher education in California for the next decade, discussed in the earlier section of this paper, are quite clear; as a consequence, continuing the “status quo” non-strategy of recent years is a decidedly inferior policy option.

Inferior it may be, but that is no guarantee that it will not happen. It is worth spending a few moments, therefore, contemplating the results of such a choice. Let us assume that the Governor’s office, the Legislature, and the California Postsecondary Education Commission continue to exert minimal leadership or

The economic forces and resulting decisions guiding the system under the “status quo” option are reasonably clear and predictable; the potential political reaction, however, is not.

policy direction for the campuses, and that in exchange for this freedom, campuses accept a continuing slide in state appropriations. One can understand how such a Faustian bargain might well be struck. In such a world, campus leaders could be expected to pursue other sources of revenue aggressively, and rising student fees will continue to be the most obvious source. With state appropriations uncoupled from enrollment levels, campuses will have little incentive to grow until fees reach such a level that they cover at least the marginal costs of additional enrollment. Instead, emphasis will be placed on maintaining or enhancing educational and research quality, which, in the case of education, administrators often define crudely as maintaining or increasing real resources per student. To the extent that increased enrollment lowers this measure,

campuses will resist expansion. In this world, enrollments may not fall much below current levels, but it seems likely that, left to their own devices, campuses will admit a steadily declining percentage of students from the cohorts of Tidal Wave II.² Those who do enroll will increasingly be drawn from families with sufficient financial resources to meet the rising student charges.

The economic forces and resulting decisions guiding the system under the “status quo” option are reasonably clear and predictable; the potential political reaction, however, is not. A growing number of potential students will be denied admission to public campuses, and although some will attend private colleges or enroll out of state, most will lose out entirely. Perhaps their discontent can be contained; perhaps good jobs with decent prospects for high school graduates will suddenly materialize; perhaps military needs will increase sharply and absorb the overflow. It seems more likely, however, that unemployment will rise sharply; an underclass without hope and with no links and no commitments to society will swell in numbers; crime and violent activity will become the occupations of choice for growing numbers of young people; and political reaction will be swift, harsh, and unpredictable. California will increasingly divide along lines of those with good education, good jobs, and high income, and those with none of the above. Whether such a society can long endure is an open question. Such, however, is the plausible social and economic outcome of a “status quo” policy.

Radical Reform

In the California context, radical reform would take the route, much in vogue these days, of privatization. Indeed, if one accepts the Rand projections of a steadily dwindling state appropriation likely to be available for higher education, some degree of privatization seems to be in the cards, whether intended or

² The decision of several CSU campuses to cut enrollments in line with reduced state appropriations is suggestive in this context

not. In that case, all that remains would be to acknowledge that fact publicly and plan for its phase-in, as opposed to sowing confusion by moving in that direction without admitting it. But what would privatization mean for the structure and functioning of higher education in California? Would radical reform of this sort produce a plausible vision of the future?

One can imagine privatization being phased in over several years, requiring as many as 10 years to complete the transition. The public decision would have to be made and announced that direct state support of public colleges and universities will be reduced by a fixed amount each year; in our example, by 10 percent per year for a 10-year transition. Tuition (the term could no longer be avoided) would increase each year by an amount sufficient to offset the decline in state appropriations. A portion of each year's state budgetary savings would be directed to the Student Aid Commission, earmarked as need-based financial aid for low-income students. Students from wealthy families would pay the higher price, or shift to private colleges or enroll out-of-state. In principle, it might be possible to engineer this change in a way that sustains student access, at least at the level of current enrollments (regarding Tidal Wave II, more later).

While the initial enrollment effects might be limited, privatization can be expected to have a dramatic impact on governance of the (former) public segments of higher education. Hand-in-hand with declining state appropriations to institutions would go declining state control. The independent sector of California higher education would increase from 73 to 210 institutions, as the 107 community colleges, 21 CSU campuses, and 9 UC campuses were added to the list. The rationale for maintaining the three segments of "public" higher education would end, and system offices would be closed, for there would be no system functions left. The Postsecondary Education Commission would also be superfluous. Each

campus would seek its own future, based on its market power, the strength and attractiveness of its educational offerings, and the entrepreneurship of its leadership. Each campus would appoint its own Board of Trustees, while the system governing boards would be abolished.

But what of Tidal Wave II? Would a privatized system be likely to expand sufficiently to accommodate several hundred thousand additional enrollments? I know of no way to form a convincing judgment on this issue. Enrollment levels would be governed by actions on both the demand and supply sides of the market. The demand side would be determined through cost/benefit calculations of each potential student, coupled with the nature and availability of financing sources. If the private rate of return to a college education continues to be high, as it has been in recent years, student motivation to attend will be strong. If adequate forms of grant and loan financing are available, students will be able to meet the cash requirements of the higher tuition rates. A critical issue will be the amount of state support required to meet the financial needs of students from low-income families. A judicious mix of grants and loans would have to be found in order to stretch state dollars as far as possible to ensure access.

The supply of places would be determined by the incentives operating on the much-enlarged independent sector. It is reasonable to assume that the institutions collectively will strive to meet whatever demand is present—and I use that term in the strict economic sense of purchasing power backed up by dollars, not as a concept of social need. Colleges and universities that sought to expand would have to have access to capital funds, perhaps drawing on the bonding capacity of the state in their capacity as non-profit institutions. Enrollments in the original 73 accredited private colleges and universities could be expected to increase, as the financial playing field for them is leveled. Overall, a wide range of

outcomes seems possible. One of the alleged benefits of privatization, however, is that whatever outcome the private educational market produces might be accepted as socially optimal. If political leaders conclude that too few students are enrolling, then increased grant and loan aid could increase access to the desired level. Existing federal grant and loan programs would mesh well with this privatized system, and state leaders could adjust the amount and type of student financial aid with those programs in mind.

One dramatic act is required: the declaration by the Governor of a state of emergency of indefinite duration in California higher education, and the appointment of a blue ribbon commission to plan the future of higher education during the state of emergency.

Could radical reform work? There seem to be no overwhelming economic obstacles to such a system, but as was true of the status quo option, the uncertainty is political. A move to privatization would radically alter existing power relationships; there would be big winners and big losers politically and professionally. Among the losers would be state political leaders in both executive and legislative branches, as well as individuals currently in powerful governance positions: Regents, system presidents or chancellors and their staffs, and public members of the state coordinating board and its associated staff. In fact, those who would lose power are the very people who would have to be the supporters and advocates of the change that would undermine their positions. If for no other reason, this dilemma appears to doom privatization as a serious policy option. And even for those who would not lose power, the uncertainty and unpredictability about how such a radical change might work in practice may lessen its attraction. Barring a change in human nature, privatization is not a practical proposal for solving California's problems.

State of Emergency of Indefinite Duration

We have judged the status quo option as socially and economically unacceptable, and the radical reform option as politically infeasible; what else is left? Nothing very dramatic or sweeping, I am afraid. The third option is made up of a myriad of small changes, none of which makes a huge difference by itself, but which collectively would go a long way toward meeting the enrollment demand of Tidal Wave II. Even though the changes proposed are not earth shaking, they do involve in some cases a substantial break with customary behavior, and represent the types of change that are not likely to come about of their own accord. They do call for a suspension of "business as usual," and thus must be ushered in as part of an explicit strategy. To announce that strategy, one dramatic act is required: *the declaration by the Governor of a state of emergency of indefinite duration in California higher education, and the appointment of a blue ribbon commission to plan the future of higher education during the state of emergency.*

What is the purpose of this public declaration? First, and most important, such a statement would provide official recognition of a reality that many understand, but that few have expressed. It would bear public witness to a situation that is nobody's fault, but that cannot be handled by normal political means. It would be advanced in a spirit that seeks to draw all parties into a search for measures that would expand undergraduate access to higher education, thereby honoring the Master Plan's commitment to educational opportunity. The state of emergency would be described as of indefinite duration because no one can be certain how long the economic crisis in California state finance will endure. The statement leaves open the possibility that within the next 5 or 10 years the situation may improve such that the state of emergency can be lifted. The goal would be to avoid an adversarial environment by mobilizing energy and resources to

secure the educational future of the state's potentially most vulnerable citizens.

By exercising leadership in this fashion, the Governor would not be taking on the task of trying to solve the problem at the state level alone, for the blue ribbon commission would involve educational leaders and faculty members, trustees and other public citizens, as well as business leaders and foundation officials in the task. Properly presented, the declaration calls on civic virtue, rendering those who would resist it self-indulgent and short-sighted. Ideally, the leadership of the UC, CSU, and community college systems would join in the declaration, together with presidents of independent colleges and universities. While a bit overdrawn, the analogy that comes to mind is the President of the United States putting the nation on a war-time footing. In this

instance, the overriding objective would be to open as many spaces as possible for California undergraduates, while maintaining necessary strength and capacity for research, graduate and professional education within the state.

In the next section is a list of actions designed to increase undergraduate spaces for California students. It is by no means exhaustive, but is advanced to suggest practical steps that can be taken, and to stimulate additional ideas from others. The actions proposed can be implemented for an indefinite period of time, and then rescinded when the state of emergency ends. None is irreversible, and none requires a permanent change in the status or mission of any campus. Most of these actions will have a cost for some participants in the system, but each involves a balancing of those costs against the greater social good.

Actions to Increase Undergraduate Educational Opportunities for California Residents

- 1) *Exclude all out-of-state undergraduates from the public colleges and universities in California.*
- 2) *Allow portability of California student aid, to enable all students who wish to enroll out-of-state to do so.*

Unlike many states, most public campuses in California have not actively sought to enroll large numbers of out-of-state residents. Nonetheless, in 1993, there were approximately 53,700 out-of-state undergraduates enrolled, in the three public segments: 4,800 in the UC system, 5,900 in the CSU system, and 43,000 in the community colleges. These figures are lower than they would be if California were as strict in establishing residency requirements as are many states. In the CSU system, a student can establish residency after one year of enrollment, whereas in many states, the student must reside in the state for a year as a non-student before achieving in-state status. During the emergency period, it would make sense for the state not only to implement the above suggestion, but also to tighten up its residency requirements in all three segments.

In many states an argument is made that out-of-state students add to the diversity of the student body, thus enhancing the educational experience for all students. In a state with as diverse a population as that of California, this argument rings hollow.

While some states might reciprocate against California residents who wish to enroll out-of-state, that is only likely in states that also face a shortage of spaces. Most states do not share California's demographic outlook, and thus are likely to welcome California students to their campuses, particularly if the reason for California's action is understood.

Exporting students to out-of-state colleges is a policy that some states, particularly in the Northeast, have long followed as less expensive than trying to meet all demand in-state. This approach is less common in the West, and has never been actively pursued in California. Now is surely the time to change that policy; it is no disgrace to admit that California can no longer be self-contained when it comes to higher education. Many regions of the country will continue to have spaces available during the next decade, and portable financial aid for those who need it in order to enroll out-of-state is certainly more cost effective than building new campuses.

- 3) *Ensure full-capacity usage of the 73 accredited independent colleges and universities.*

The Association of Independent Colleges and Universities of California estimates that its members currently have about 20,000 unused places on their campuses, which include primarily four-year colleges and universities. As enrollment pressures in the public colleges and universities build, one would expect these places eventually to be filled, but modest amounts of additional state support to the Student Aid Commission could hasten that day. Ensuring the maximum contribution of the independent sector to meeting the need for enrollment spaces is among the most cost-effective options available to the state.

- 4) *Set enrollment priorities for first-time students by age, e.g., first priority to students age 17-24, second priority to students age 25-34, and third priority to students over age 34.*

This is a straight-forward rationing policy, and will surely offend those who are forceful advocates for non-traditional students. It is not a policy that one would willingly advocate at any time other than during a state of emergency. The proposal is not arbitrary, however, but is grounded in a judgment about priorities based on considerations of both equity and efficiency. Those who fall in lower priority categories by reason of age had the opportunity to enroll in better times when spaces were available and fees (tuition) were considerably lower. It hardly seems equitable for an older student to displace a younger student who is ready and eager to enroll today. Given that higher education is a form of investment in human capital, with returns extending over a career, efficiency is enhanced by investing in the younger person. Nonetheless, this policy should be among the first to be abandoned when conditions improve.

- 5) *Suspend new admissions to master's degree programs in arts and science fields at all CSU campuses.*

This policy seeks to open more spaces for undergraduates in the CSU system by reducing the number of graduate students, and reflects a clear judgment regarding the relative priority of the two activities. That judgment is not one that will be easily accepted by many administrators and faculty members on CSU campuses, but I believe it accurately reflects the higher priority given to undergraduate over master's level instruction by most California taxpayers. It also reflects an economic and social judgment regarding the relative importance of bachelor's versus master's level instruction in a time of scarce resources. I understand the professional cost such a policy imposes upon CSU faculty, but the situation

now and for the foreseeable future calls for faculty time and energy in these campuses to be reallocated from graduate to undergraduate education.

- 6) *Suspend new admissions to doctoral degree programs in arts and science fields at five of the UC campuses: Davis, Irvine, Riverside, Santa Barbara, and Santa Cruz.*

The rationale for this proposal is similar to that of the one preceding; it reflects a social judgment about the relative value of faculty time and energy spent on undergraduate versus graduate education. Conditions in the labor market for Ph.D. graduates in arts and sciences are also built into this proposal, for there is no evidence that the remaining UC campuses and the private research universities in California are incapable of meeting needs for advanced education and research now and for the foreseeable future. Should those conditions change, this policy could be relaxed. Again, I understand the professional cost this policy would impose on UC faculty members at the five campuses, but society currently needs their services more urgently at the undergraduate rather than the graduate level of instruction.

- 7) *Re-focus community colleges on their original junior college function.*

The history of community colleges is one of continued expansion to serve the educational needs of every resident within the district, whatever the need or motivation to study may be. As the array of activities has expanded, the original junior college function has received low priority within many of the colleges, for much of the educational excitement and growth lay elsewhere. The times clearly call for a reversal of this trend, with highest priority accorded once again to younger students in academic transfer and occupational/vocational courses of instruction.

- 8) *Forcefully and unambiguously link state*

support for institutions to undergraduate enrollment levels in all three public segments.

As noted in the earlier discussion of the status quo option, one of the significant changes in state policy in recent years has been the uncoupling of state resources from enrollment levels, sidestepping the long-established funding formula. If the three recommendations above regarding reallocation of faculty time are to have maximum effect, then the funding formula must once again reward campuses for enrolling undergraduates, and penalize campuses for reducing such enrollments. In this fashion, the state affirms its educational priorities and makes them clear to all.

9) Generate maximum possible financial support from non-state sources.

This suggestion comes close to being gratuitous, for incentives already exist for such behavior, whether through more aggressive private fund raising, the securing of outside research funds, or the provision of programs paid for by employers and designed to meet specific training needs of employees. One funding source that needs a general policy, however, is tuition. Despite the rapid increases in student fees in recent years, public higher education in California remains a bargain, whether compared to its true economic cost or to public tuition charged in most states. The unpredictable nature of fee increases in recent years undoubtedly has been disconcerting to students and families, and has been made worse by the absence of any clearly stated policy. A stable and predictable policy would allow families to form an estimate of future charges, and plan on ways to meet those expenses. Many students in the UC system come from relatively wealthy families, and there is no economic reason for these students to continue to receive the high level of subsidy currently provided. Increasingly scarce state dollars will buy much more access if allocated directly to students from low-income families in the form of financial aid.

A sensible policy would begin by relating tuition to the median income of students in each public segment. If the median income in the community colleges is low, then little would be gained by charging high tuition. a need-based aid policy would return much of the tuition in the form of financial aid. The limited evidence that is available indicates that incomes are lowest in the community colleges, higher in the CSU system, and higher yet in the UC system (California Student Aid Commission 1993). Tuition rates might reasonably mirror these income profiles.

Additional concepts might be used in setting a sensible tuition policy; for example, regardless of sector, tuition might be set at the lowest level for first and second-year students, at a higher level for juniors and seniors, and at higher levels still for students in master's, doctoral, or professional programs. The idea behind this allocation is that first and second-year students are the least certain about their academic abilities, and may need financial encouragement to try out higher education. For those who are successful, risk is significantly reduced, and it is reasonable to ask such students to bear a larger share of the costs. At the graduate and professional levels, there is widespread agreement that benefits are largely private, accruing in higher career incomes, and thus the case for subsidy is further diminished. A substantial body of analysis exists on this topic, which could guide policy makers in establishing tuition policies that ensure the wise expenditure of scarce state dollars (Breneman, Leslie & Anderson 1993).

10) Explore and implement policies to increase learner productivity.

When the issue of productivity is raised in the context of higher education, reference is usually made to the allocation of faculty time. More recently, D. Bruce Johnstone, former chancellor of the State University of New York system, has drawn attention to an equally, if not more important, use of the term as it applies to the expenditure of student time and

effort in academic programs (Johnstone 1990). In comparison to many countries, the United States is particularly wasteful of student time; we are willing to countenance five and six-year degree programs, as well as long periods of part-time study on the part of students who would benefit financially by more rapid program completion. To the extent that students can move through the college or university more rapidly, space will be opened for others. An example may help to make this point.

The three-year degree program has recently been much discussed in higher education circles. While a small number of students might benefit from such an option, an alternative, and probably more productive, approach for many students would be to save an equivalent amount of time by skipping senior year in high school. Many young people are fully ready for college after the junior year in high school, and it is widely argued that the senior year is largely wasted academically, particularly the second semester. If more students could enroll in college a year early, money would be saved in K-12 education, thereby easing the state's budgetary problem. Similarly, over-reliance on work during the academic year slows many college students down, and net savings might be realized by modest expenditures that would enable students to finish more rapidly. Efforts focused on increased learner productivity may yield surprisingly high dividends in reduced economic costs per degree recipient.

11) Explore internal pricing techniques and other incentive systems that encourage more efficient use of time and facilities.

The human and physical resources invested in higher education in California are enormous, but there is reason to believe that these resources are not used as effectively as possible because of flawed incentive systems. Consider the physical plant as one example. Allocation of space on campus is done bureaucratically (and I do not use that term pejoratively), with space assigned on the basis of education-

al or research needs. Once assigned, it is very difficult to remove it from its current use, and reassign it to others. Were there an internal market for space, individuals, departments, and programs would have a financial incentive to use—and pay for—only those facilities that meet a cost/benefit criterion. In the absence of internal markets, there is little incentive to release space for higher-valued uses, for the holder gains nothing in return.

As another example, preferred teaching times tend to cluster in a relatively small number of hours, often producing schedule conflicts for students who must take required courses. If faculty members could gain other tangible resources for teaching in less popular time slots, more complete use of the teaching day would result. These are just two examples of the general principle that a skillfully designed incentive system could yield more effective use of the existing plant and facilities, reducing the need for additional outlays. In systems as highly decentralized as higher education, the absence of internal coordinating and allocating mechanisms other than bureaucratic assignment reduces the effectiveness of resource use. Efforts expended on this issue might yield high dividends for the university, its faculty, staff, and students.

12) Explore new modes of service delivery and the use of emerging educational technologies.

This proposal, like the previous one, is more speculative and uncertain than the others, and may not yield a positive payoff over the next decade. While higher education is a relatively capital-intensive enterprise, it has not benefited from cost savings through the substitution of capital for labor, the route to enhanced productivity in industry. Instead, as new technological capabilities arise, they are typically added to the existing mix of teaching methods, enhancing the quality of education provided, but raising, not lowering, the cost. As a consequence, I am not as optimistic as some about the potential cost savings to be

found along the information highway.¹ Nonetheless, it would be irresponsible not to explore every promising technology with an eye to what it might mean for increased educational opportunities. The California community colleges have taken the lead in exploring such possibilities through their Commission on Innovation (Commission on Innovation

1993), and the new CSU campus at Monterey is being established with that mission as a partial justification. The only defensible view regarding the potential cost savings of new technology in the next decade is an agnostic one, but perhaps a contribution to California's educational supply problem will be found in this domain.

³ For another view, see C. Blumenstyk's "Networks to the Rescue?" 1994, p. A21.

Conclusion

The twelve ideas advanced above are no doubt flawed and open to improvement. But they do represent a start in the search for ways to ensure higher educational opportunity for the next generation of California's young citizens. If but a fraction of the brainpower in the state were devoted to a comparable search, many more ideas would be forthcoming, and progress would be made. Having thought long and hard about the educational challenge facing the state, I am convinced that the solution lies in a multitude of small steps such as the above, rather than in a single dramatic action.

Accountability is a notion much in vogue these days. Although the concept as applied to higher education is far from clear, it does have one meaning that should keep all leaders of

the generation in power awake at night. I refer to the accountability that this generation of leaders owes to its children and grandchildren. We have inherited a magnificent legacy in the

If we fail to preserve and pass on that legacy to the next generation, we will have failed the young in the most fundamental way imaginable.

California system of higher education, representing the hard work and dreams of those who came before us. If we fail to preserve and pass on that legacy to the next generation, we will have failed the young in the most fundamental way imaginable. We will be held accountable for our failure in the diminished lives of those who follow.

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